



# Markets & Price

*Spending & Production*

## *Warm Up:*

- What did you have for breakfast today?
- How did this food arrive in your house? Who bought it?
- How did that person know what and how much to buy for breakfast?
- How did the store know that someone would buy it?



## *Answers to Warm Up*

- What did you have for breakfast today? **Souls**
- How did this food arrive in your house? Who bought it? **My Wife**
- How did that person know what and how much to buy for breakfast? **Past experiences with tastes and eating habits of my kids and me.**
- How did the store know that someone would buy it? **Past experiences and habits of store costumers**



## *In groups:*

- How does the local fast food restaurant know how many workers to schedule for each shift during the week?
- What would happen if a change in consumer preferences and buying patterns significantly reduced the demand for a good or service?



## *In groups:*

- What would happen if higher production costs significantly reduced the supply of a good or service?
- Is a central authority needed to decide what, how, and for whom to buy and sell in competitive markets? (Explain your reasoning.)





## Answers:

- How does the local fast food restaurant know how many workers to schedule for each shift during the week?
- From past experiences or from similar stores in similar area
- What would happen if a change in consumer preferences and buying patterns significantly reduced the demand for a good or service?
- At first may avoid cutting production or prices, but eventually they will reduce at least one.



## *In groups:*

- What would happen if higher production costs significantly reduced the supply of a good or service?
- At first may try to avoid raising prices, but eventually production may decrease and price may increase
- Is a central authority needed to decide what, how, and for whom to buy and sell in competitive markets? (Explain your reasoning.)
- Nope!



# Markets

- What are markets?
  - Any kind of arrangement that allows the potential buyers and sellers of a particular good or service to interact.
    - Not always face-to-face
- Product & Factor Markets
  - Product
    - Things consumers buy for satisfaction
  - Factor
    - Inputs used in production (Factors of production)





## *What's for lunch?*

- Rank order each of the following per your taste
  - Black Jack Veggie Pizza
    - Olives, mushroom, peppers, onion
  - Cheeseburger
    - Smashburger
  - Chef Salad
    - New York Deli News
  - Chicken Nuggets
    - Burger King



# *Efficiency*

## Allocative efficiency

- That resources are allocated efficiently when it is not possible to benefit one person without making someone else worse off.
- Voluntary market efficiency



- How does the Adam Smith quote represent your understanding of markets and allocative efficiency?

